

Message Text

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ACTION EB-07

INFO OCT-01 NEA-10 ISO-00 L-03 AID-05 CIAE-00 COME-00

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FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC 2843

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TAGS: EFIN, EIND, EINV, IR

SUBJECT: FOREIGN INVESTMENT CLIMATE AND STATISTICS: IRAN

REF: STATE 165596

1. THE STATEMENT ON THE IRANIAN INVESTMENT CLIMATE REQUESTED IN REFTEL FOLLOWS:

2. IRAN: THE INVESTMENT CLIMATE IN IRAN REMAINS BASICALLY FAVORABLE. THOUGH THE RATE OF INFLATION PROBABLY IS AT LEAST 20 PERCENT, WITH GOOD PROSPECTS FOR CONTINUED LARGE FOREIGN EXCHANGE EARNINGS FROM OIL EXPORTS, THE ECONOMY IS EXPECTED TO GROW AT AN ANNUAL RATE EXCEEDING 20 PERCENT IN REAL TERMS.

3. THE GOVERNMENT SEEKS TO ATTRACT FOREIGN INVESTMENT PARTICULARLY IN HIGH-TECHNOLOGY AND EXPORT-ORIENTED ENTERPRISES. BASIC REGULATIONS ARE SPELLED OUT IN THE 1955 LAW FOR THE ATTRACTION AND PROTECTION OF FOREIGN INVESTMENT AND PERTINENT SECTIONS OF THE 1931 COMMERCIAL CODE (WITH THE EXCEPTION OF PETROLEUM INVESTMENT WHICH IS SUBJECT TO SPECIAL GOVERNMENT APPROVAL AND CONTROL). IRAN CURRENTLY IS ESPECIALLY INTERESTED IN OBTAINING FOREIGN INVESTMENT AND/OR UNCLASSIFIED

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TECHNOLOGY FOR DEVELOPMENT OF PETROCHEMICALS, EXPORT-ORIENTED OIL REFINING, AGRO-BUSINESS, THE STEEL INDUSTRY, TELECOMMUNICATIONS, AND MINERALS EXPLORATION AND EXPLOITATION AND FOR DEVELOPMENT OF INTERNAL TRANSPORTATION AND

PORT FACILITIES AND IMPROVEMENT OF EDUCATIONAL AND MEDICAL FACILITIES.

4. THE COUNCIL OF MINISTERS APPROVES NEW FOREIGN INVESTMENT OR EXPANSION OF AN EXISTING FACILITY UPON RECOMMENDATION OF THE MINISTRY OF ECONOMIC AFFAIRS AND FINANCE. SUBSEQUENT REGULATION OF COMMERCIAL ENTERPRISES IS CONDUCTED BY THE MINISTRY OF ECONOMIC AFFAIRS AND FINANCE AND THE CENTRAL BANK.

5. AS A GENERAL RULE, FOREIGN INVESTMENT MUST BE IN JOINT VENTURES WITH THE IRANIAN PARTNERS HOLDING MAJORITY INTEREST. RECENTLY THE GOVERNMENT ANNOUNCED A NEW REGULATION WHEREBY 49 PERCENT OF THE SHARES OF PRIVATE SECTOR MANUFACTURING ENTERPRISES MUST BE HELD BY WORKERS, FARMERS, AND THE GENERAL PUBLIC. IN MOST CASES, FOREIGN EQUITY PARTICIPATION IN IRANIAN JOINT VENTURES PROBABLY WILL NOT EXCEED 25 PERCENT, ONCE THE PLAN IS IMPLEMENTED. OPIC INVESTMENT GUARANTEES ARE REGULARLY APPROVED.

6. FOREIGN INVESTORS MAY BE GRANTED DUTY FREE IMPORT OF EQUIPMENT AND RAW MATERIALS AND TAX INCENTIVES FOR LOCATING IN UNDERDEVELOPED AREAS, UNDER LIBERALIZED FOREIGN EXCHANGE REGULATIONS, THERE REMAIN ONLY MINOR RESTRICTIONS ON FREEDOM TO CONVERT AND REMIT EARNINGS AND CAPITAL. SOME PROTECTION IS PROVIDED TO INFANT INDUSTRIES BY RESTRICTING COMPETING IMPORTS. GOVERNMENT PROCUREMENT MUST BY LAW FAVOR LOCAL MANUFACTURES, PROVIDED SUPPLIES ARE ADEQUATE AND QUALITY ACCEPTABLE.

7. THERE IS A LARGE AND GROWING NUMBER OF FOREIGN TECHNICAL AND MANAGERIAL PERSONNEL IN IRAN BECAUSE OF THE CURRENT MANPOWER SHORTAGE. NON-IRANIANS ARE ALLOWED TO ENTER AND WORK WITHOUT RESTRICTION UNLESS SUFFICIENT LOCAL TALENT IS AVAILABLE. WORK PERMITS AND RESIDENCE VISAS FOR FOREIGNERS ARE REVIEWED PERIODICALLY BY THE GOVERNMENT.

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8. THERE IS NO LEGISLATION PENDING TO IMPOSE NEW RESTRICTIONS ON FOREIGN INVESTORS. HOWEVER, A MINING CODE AND LEGISLATION TO ESTABLISH AN ENVIRONMENTAL PROTECTION AGENCY ARE BEFORE PARLIAMENT.

9. (A) NO ACCURATE FOREIGN INVESTMENT DATA OF ANY KIND EXIST IN IRAN. U.S. DIRECT INVESTMENT AT THE END OF 1974 IS ESTIMATED AT ABOUT \$475 MILLION, OF WHICH ABOUT \$235 MILLION WAS IN THE OIL INDUSTRY. ONLY ABOUT \$500,000 WAS IN MINING. ABOUT \$210 MILLION WAS IN MANUFACTURING (INCLUDING ABOUT \$40 MILLION IN PETROCHEMICALS AND \$6 MILLION IN OIL REFINING AND DRILLING). ABOUT \$31 MILLION WAS IN BANKING. TOTAL U.S. INVESTMENT IN IRAN HAS DECLINED SINCE THE

\$570 MILLION ESTIMATED AT THE END OF 1972 BECAUSE OF NATIONAL IRANIAN OIL COMPANY'S (NIOC) PURCHASE OF FOREIGN PARTICIPATION IN THE OIL CONSORTIUM. IT SHOULD SURPASS THE 1972 LEVEL, HOWEVER, THIS YEAR OR NEXT.

(B) ACCORDING TO DR. H. ZAIM, HEAD OF THE OLD CENTER FOR THE ATTRACTION AND PROTECTION OF FOREIGN INVESTMENT IN IRAN AND CURRENTLY DIRECTOR GENERAL FOR FOREIGN INVESTMENT IN THE NEW ORGANIZATION FOR INVESTMENT AND ECONOMIC AND TECHNICAL ASSISTANCE OF IRAN, TOTAL FOREIGN INVESTMENT IN IRAN IS ABOUT \$400 MILLION. ZAIM ADMITS, HOWEVER, THAT FOREIGN INVESTMENT IN THE OIL INDUSTRY, BANKING AND OTHER SERVICES, CONSTRUCTION, AND ENGINEERING ARE EXCLUDED FROM THE DATA HIS OFFICE MAINTAINS. WE ESTIMATE TOTAL FOREIGN INVESTMENT IN IRAN AT THE END OF 1974 AT SOMEWHERE IN THE \$800-\$850 MILLION RANGE. AFTER THE U.S., THE NEXT FOUR LARGEST INVESTORS IN IRAN ARE JAPAN, GERMANY, ITALY, AND BRITAIN. ACCORDING TO THE JAPANESE EMBASSY, THE TOTAL FOR JAPAN IS ABOUT \$64 MILLION. THE GERMAN EMBASSY GIVES THE GERMAN TOTAL AS ABOUT \$60 MILLION. ITALY PROBABLY HAS ABOUT \$55 MILLION INVESTED IN THE OIL INDUSTRY. THE BRITISH EMBASSY HAS NO STATISTICAL INFORMATION, BUT BELIEVES \$50 MILLION PROBABLY IS A REASONABLE ESTIMATE.

(C) NO DATA EXISTS ON IRANIAN INVESTMENT IN THE U.S. THUS FAR, NO OFFICIAL IRANIAN EQUITY INVESTMENTS HAVE BEEN MADE IN THE U.S.A. PRIVATE INDIVIDUALS AND ORGANIZATIONS OWN SOME REAL ESTATE, MUTUAL FUNDS, AND OTHER STOCKS, BUT UNCLASSIFIED

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THERE IS NO EDUCATED GUESS OF THE AMOUNT.
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